

**WEST HANCOCK COMMUNITY SCHOOL DISTRICT
BRITT, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

YEAR ENDED JUNE 30, 2004

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**West Hancock Community School District
Britt, Iowa**

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--|----------------|---------------------|
| Board of Education (Before September 2003 Election) | | |
| Jay Burgardt | President | 2003 |
| Debra Trulson | Vice President | 2005 |
| Diane Hansen | Board Member | 2003 |
| Connie Swanson | Board Member | 2003 |
| David Beech | Board Member | 2004 |
| Jo Lang | Board Member | 2004 |
| Dan Abels | Board Member | 2005 |

| | | |
|---|----------------|------|
| Board of Education (After September 2003 Election) | | |
| Jay Burgardt | President | 2006 |
| Debra Trulson | Vice President | 2005 |
| David Beech | Board Member | 2004 |
| Jo Lang | Board Member | 2004 |
| Dan Abels | Board Member | 2005 |
| Connie Swanson | Board Member | 2006 |
| Paul Verbugge | Board Member | 2006 |

School Officials

| | | |
|------------------|--|--------------------|
| Klint Willard | Superintendent | 2004 |
| Stacy Langfitt | District Secretary/Treasurer and Business Manager | Sept - 2003 |
| Patricia Sampson | District Secretary/Treasurer and Business Manager | Interim |
| Mona Buns | District Secretary/Treasurer and Business Manager | Dec 2003-June 2004 |
| Rick Engel | Attorney | Indefinite |

Independent Auditor's Report

To the Board of Education of
West Hancock Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of West Hancock Community School District, Britt, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of West Hancock Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, West Hancock Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated September 2, 2004 on our consideration of West Hancock Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 15 and 45 through 48 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise West Hancock Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (none of which is presented herein) and expressed a qualified opinion on those financial statements. Our opinion was qualified because the financial statements for the year ended June 30, 2003 included a portion of general fixed assets at replacement cost. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CORNWELL & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

September 2, 2004

Management Discussion and Analysis

The West Hancock Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues for fiscal 2004 were \$5,362,089 while General Fund expenditures were \$5,259,634. This resulted in a decrease in the District's General Fund balance from \$961,660 in fiscal 2003 to \$859,205 in fiscal 2004, or a \$102,455 decrease from the prior year.
- The decrease in General Fund balance was attributable to an across the board state budget cut of 2.5% which for the Forest City District amounted to \$127,411.
- The District sold \$6.4 million of General Obligation bonds dated August 1, 2002. The District also sold notes of \$700,000 dated December 1, 2003. The proceeds of the bond issues will help finance improvements to the Kanawha Middle School and build a new Britt Elementary Building. The Buildings are also being remodeled for energy efficiency.
- The District was involved in a Local Option Sales and Services for School Infrastructure Election for Wright County on November 18, 2003 that passed with a 69% yes vote and was effective as of July 1, 2003. This new source of funding will produce approximately \$6,792 for the 2004-2005 school year.
- The District was involved in a Local Option Sales and Services for School Infrastructure Election for Hancock County on April 1, 2003 that passed with an 80% yes vote and was effective as of July 1, 2003. This new source of funding will produce approximately \$203,268 for the 2004-2005 school year.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the district:

- The first two statements are government-wide financial statements that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the government-wide statements.
- The statements for *governmental funds* explains how basic services, such as regular and special education were financed in the *short term* as well as what remains for future spending.
- The statement for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1

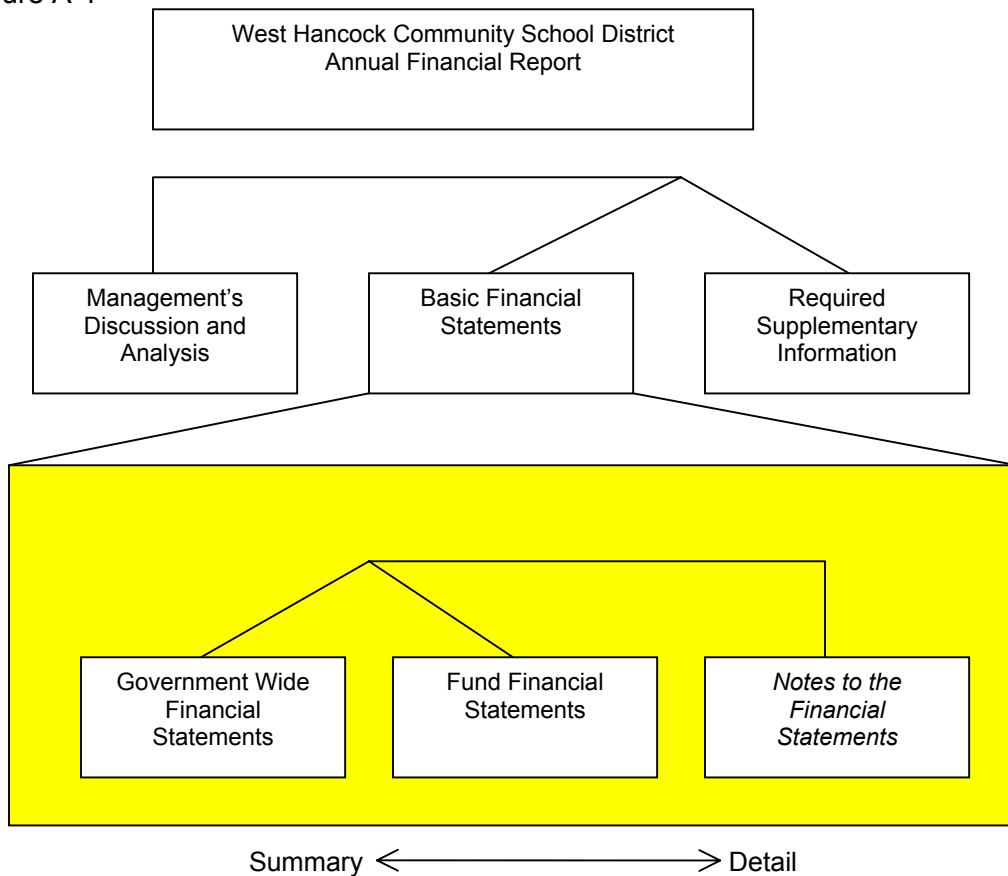


Figure A-2 below summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

| Figure A-2: Major Features of the Government Wide and Fund Financial Statements | | | | |
|--|--|---|--|---|
| | Government-wide Statements | Fund Financial Statements | | |
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire district (except fiduciary funds) | The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance | Activities the district operates similar to private businesses: food services is included here | Instances in which the district administers resources on behalf of someone else, such as scholarship programs |
| Required financial statements | <input type="checkbox"/> Statement of net assets <input type="checkbox"/> Statement of activities | <input type="checkbox"/> Balance sheet <input type="checkbox"/> Statement of revenues, expenditures, and changes in fund balances | <input type="checkbox"/> Statement of net assets <input type="checkbox"/> Statement of cash flows <input type="checkbox"/> Statement of revenues, expenses and changes in net assets | <input type="checkbox"/> Statement of fiduciary net assets <input type="checkbox"/> Statement of changes in fiduciary net assets |
| Accounting Basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable | All revenues and expenses during the year, regardless of when cash is received or paid | All additions and deductions during the year, regardless of when cash is received or paid |

Government-wide Financial Statements

The government-wide statements report information about the district as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or

paid.

The two government-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school building and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help it cover the costs of certain services it provides. The District's food service program would be included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the district as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The District has two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.
 - The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements.
 - The District's *enterprise funds* (one type of proprietary fund) are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

Financial Analysis of the District as a Whole

Net assets. - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004.

Figure A-3

Condensed Statement of Net Assets (in millions of dollars) June 30, 2004

| | Governmental Activities | Business-type Activities | Total School District |
|-----------------------------|----------------------------|-----------------------------|--------------------------|
| Current and other assets | \$5.911 | \$..044 | \$5.955 |
| Capital assets | 8.133 | .012 | 8.145 |
| Total assets | 14.044 | .056 | 14.100 |
| Long-term debt outstanding | 6.690 | - | 6.690 |
| Other liabilities | 4.379 | .001 | 4.380 |
| Total liabilities | 11.069 | .001 | 11.070 |
| Net assets | | | |
| Invested in capital assets, | | | |
| net of related debt | 1.496 | .012 | 1.508 |
| Restricted | .206 | - | .206 |
| Unrestricted | 1.273 | .043 | 1.316 |
| Total net assets | \$2.975 | \$0.055 | \$3.030 |

Note: totals may not add due to rounding.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

| Figure A-4 | | | |
|--|------------------------------------|-------------------------------------|----------------------------------|
| Changes in Net Assets from Operating Results (in millions of dollars) | | | |
| | Governmental Activities | Business-type Activities | Total School District |
| | <u>2004</u> | <u>2004</u> | <u>2004</u> |
| Revenues | | | |
| Program revenues | | | |
| Charges for services | \$.442 | \$.131 | \$.573 |
| Operating Grants & Contributions | .582 | .112 | .694 |
| Capital Grants & Contributions | 0 | 0 | 0 |
| General revenues | | | |
| Property Taxes & Other Local Taxes | 3.008 | 0 | 3.008 |
| Unrestricted State Aid | 1.981 | 0 | 1.981 |
| Other | .536 | .002 | .538 |
| | | .245 | |
| Total revenues | 6.549 | | 6.794 |
| Expenses | | | |
| Instruction | 3.760 | 0 | 3.760 |
| Support Services | 1.853 | 0 | 1.853 |
| Non-instructional programs | .025 | .244 | .269 |
| Other | .584 | 0 | .584 |
| | | .244 | |
| Total expenses | 6.222 | | 6.466 |
| Increase (decrease) in net assets | \$.327 | \$.001 | \$.328 |
| Note: totals may not add due to rounding. | | | |

Property tax, income surtax, sales taxes and state foundation aid account for 73 percent of the total revenue. The District's expenses primarily relate to instruction and support services that account for 87 percent of the total expenses.

Governmental Activities

Revenues for governmental activities were \$6,549,412 and expenses were \$6,221,712. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

Figure A-5 The following graph presents the total Revenue for the District's major governmental activities: state aid, federal and state grants, property taxes, charges for services and other incomes.

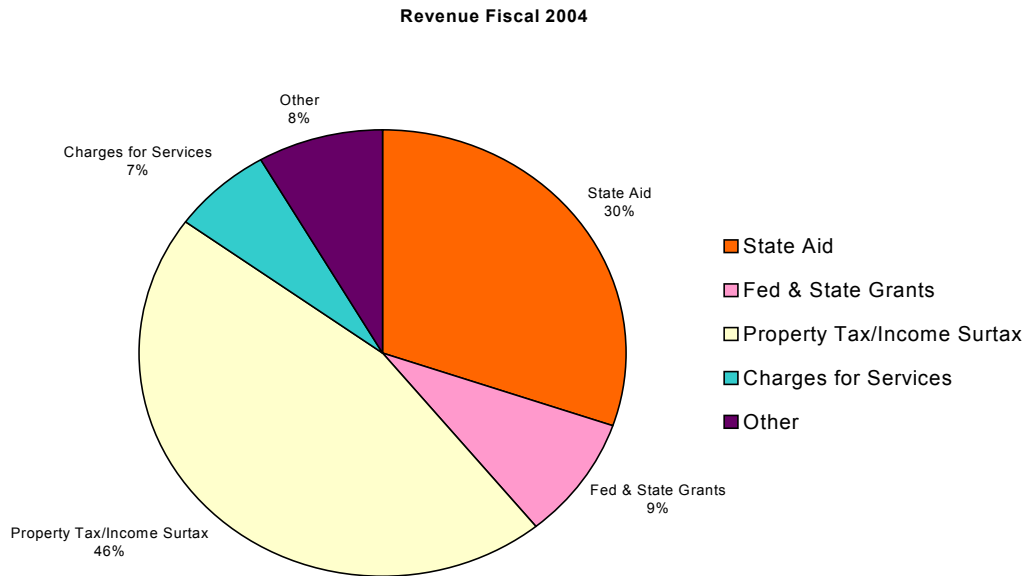


Figure A-6 The following graph presents the total Expenditures for the District's major governmental activities: instruction, student & instructional services, administration & business, operations & maintenance, transportation and AEA flow thru.

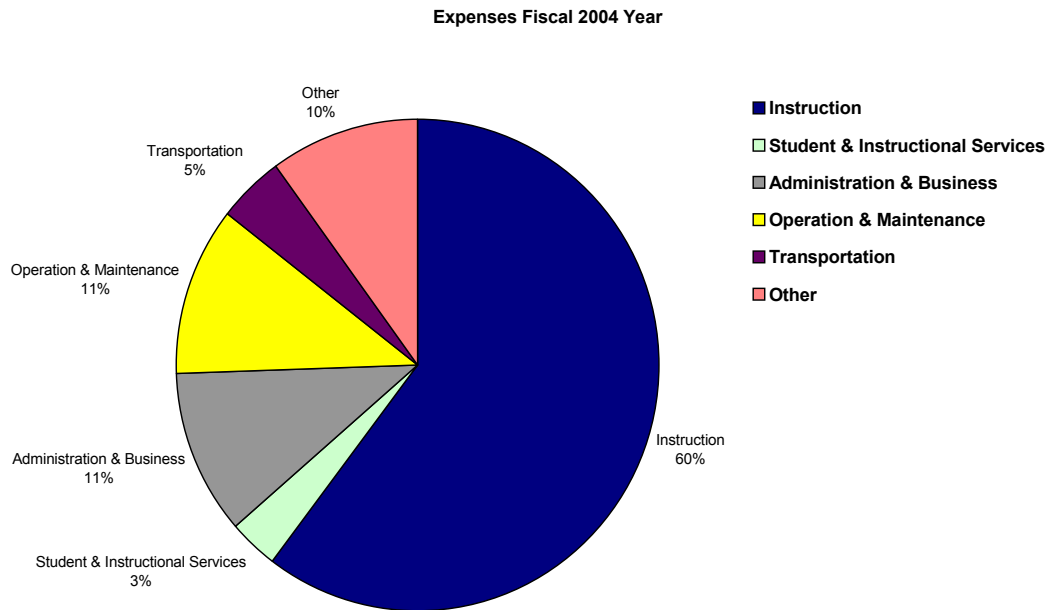


Figure A-7 presents the cost of six major district activities: instruction, pupil and instructional services, administration and business, maintenance and operations, transportation, and other. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Figure A-7**Net Cost of Governmental Activities (in millions of dollars)**

| | Total Cost of Services <u>2004</u> | Net Cost of Services <u>2004</u> |
|--------------------------------|---|---|
| Instruction | \$3.760 | \$ 2.951 |
| Pupil & Instructional Services | .208 | .208 |
| Administrative & Business | .665 | .665 |
| Maintenance & operations | .703 | .703 |
| Transportation | .278 | .270 |
| Other | .608 | .400 |
| Total | \$ 6.222 | \$ 5.197 |

Note: totals may not add due to rounding.

- ☐ The cost of all governmental activities this year was \$6,221,712.
- ☐ Some of the cost was financed by the users of the District's programs in the amount of \$442,497.
- ☐ The federal and state governments subsidized certain programs with grants and contributions \$582,379.
- ☐ Most of the District's costs were financed by District and state taxpayers.
- ☐ This portion of governmental activities was financed with \$2,772,359 million in property taxes, \$352,380 of income surtax and 62,954 of sales tax \$1,980,723 million of unrestricted state aid based on the statewide finance formula, and investment earnings.

Business Type Activities

Revenues from the District's business-type activities included charges for services in the amount of \$131,858 and \$111,858 from operating grants, contributions and restricted interest. Expenses from the District's business type activities amounted to \$243,807. The Hot Lunch program was the only Business Type Activity for the District during the 2004 school year.

Financial Analysis of the District's Funds

As previously noted, the West Hancock Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balance of \$3,217,150 below last year's ending fund balances of \$4,662,469. However, the primary reason for the decrease in combined fund balances in fiscal 2004 is due to approximately \$4,000,000 of expended general obligation bond proceeds received in fiscal 2003.

Governmental Fund Highlights

- ☐ The District's stabilizing General Fund financial position is the product of many factors. During the year property tax proceeds, open enrollment, interest income, replacement taxes and federal programs stayed consistent with budgeted amounts and expenditures were in line with projections.
- ☐ The General Fund balance decreased from \$961,660 to \$27,050 due mainly to an across the board state aid budget cut.
- ☐ The Capital Projects Fund balance decrease is due to the expensing of the \$4,000,000 in general obligation bonds from fiscal 2003. Fiscal 2004 ended with a balance of \$352,823 consisting of unexpended bond proceeds that will be expensed as the projects are completed.
- ☐ The Debt Service Fund balance decreased from \$29,300 in fiscal 2003 to \$27,050.

Proprietary Fund Highlights

The School Nutrition Fund net cash increased from \$55,206 at June 30, 2003 to \$55,445. Revenues and expenditures in the fund have remained fairly stable over the past few years.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearings for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison.

Legal Budgetary Highlights

The District's total actual receipts were approximately \$356,000 more than that budgeted receipts.

Total expenditures were less than budgeted. It is the District's practice to budget expenditures at the same amount as budgeted revenues in all funds. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the Instruction line item as not sufficient amounts were budgeted for the student activity accounts.

Capital Asset and Debt Administration

Capital Assets

By the end of 2004 the District had invested \$11.44 million, in a broad range of assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. (See Figure A-8) **(More detailed information about capital assets can be found in Note 5 to the financial statements.)** Total depreciation expense for the year exceeded \$150,000.

| Figure A-8 | | | |
|--|---|--|---|
| Capital Assets (net of depreciation, (in millions of dollars)) | | | |
| | Governmental Activities <u>2004</u> | Business Type Activities <u>2004</u> | Total School District <u>2004</u> |
| Land | 0.013 | 0 | 0.013 |
| Construction in progress | 0.541 | 0 | 0.541 |
| Buildings | 7.304 | 0 | 7.304 |
| Improvements | 0 | 0 | 0 |
| Equipment & Furniture | 0.275 | 0.012 | 0.287 |
| | 8.133 | 0.012 | 8.145 |
| Note: totals may not add due to rounding. | | | |

Long-Term Debt

At year-end, the District had \$6,689,607 in general obligation bonds and other long-term debt outstanding. This represents an increase of 8.04% over the previous fiscal year as can be seen in Figure A-9 below.

| Figure A-9 Outstanding Long-Term Debt (in millions of dollars) | | | |
|---|-----------------------|-------------|-------------------------------|
| | Total School District | | Total Percentage Change |
| | <u>2003</u> | <u>2004</u> | <u>2003-2004</u> |
| General Obligation bonds & notes (financed with property tax) | 6.165 | 6.632 | 7.57 |
| Other general obligation debt | 0.027 | 0.058 | 1.15 |
| Total | 6.192 | 6.69 | 8.04 |

Factors Bearing on the District's Future

The following factors will have some impact on the district's financial future.

- The district currently has no authorized budget balance and could end the current year in a negative balance.
- Approximately \$450,000 have been identified for expenditure cuts for next year.
- The district must expect and plan for a continued enrollment decline of approximately 6% over the next five years.
 1. There has been a steady decline in enrollment during the past ten years.
 2. The district lost the Con Agra Company that was one of the larger employers in the district.
 3. The number of farms in Hancock County continues to decline
 4. Few new houses have been built in Britt or Kanawha in the past few years.
- Future state funding will be a major factor in the district's future
- State and Federal unfounded mandates.
- The degree to which the district will commit itself to effectively manage the fiscal matters of the district.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mona Buns, Board Secretary/Business Manager, West Hancock Community School District, 420 9th Ave. SW., Britt, Iowa 50423

Basic Financial Statements

West Hancock Community School District
Britt, Iowa

Exhibit A

Statement of Net Assets

June 30, 2004

| | Governmental <u>Activities</u> | Business Type <u>Activities</u> | <u>Total</u> |
|---|-----------------------------------|------------------------------------|-------------------|
| Assets | | | |
| Cash and cash equivalents: | | | |
| ISCAP | \$ 1,777,483 | - | 1,777,483 |
| Other | 1,403,677 | 30,966 | 1,434,643 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 42,139 | - | 42,139 |
| Succeeding year | 2,490,868 | - | 2,490,868 |
| Accounts | 15,182 | - | 15,182 |
| Accrued interest: | | | |
| ISCAP | 3,572 | - | 3,572 |
| Due from other governments | 178,058 | - | 178,058 |
| Inventories | - | 11,958 | 11,958 |
| Capital assets, net of accumulated depreciation | 8,133,425 | 12,625 | 8,146,050 |
| Total assets | <u>14,044,404</u> | <u>55,549</u> | <u>14,099,953</u> |
| Liabilities | | | |
| Accounts payable | 63,975 | - | 63,975 |
| Salaries and benefits payable | 1,688 | 104 | 1,792 |
| Accrued interest payable | 32,283 | - | 32,283 |
| Deferred revenue - succeeding year property tax | 2,490,868 | - | 2,490,868 |
| ISCAP warrants payable | 1,767,000 | - | 1,767,000 |
| ISCAP accrued interest payable | 5,415 | - | 5,415 |
| ISCAP unamortized premium | 18,608 | - | 18,608 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| General obligation bonds payable | 215,000 | - | 215,000 |
| Lease payable | 4,371 | - | 4,371 |
| Notes payable | 58,536 | - | 58,536 |
| Early retirement | 7,749 | - | 7,749 |
| Portion due after one year: | | | |
| General obligation bonds payable | 5,745,000 | - | 5,745,000 |
| Lease payable | 1,542 | - | 1,542 |
| Notes payable | 613,054 | - | 613,054 |
| Early retirement | 44,355 | - | 44,355 |
| Total liabilities | <u>11,069,444</u> | <u>104</u> | <u>11,069,548</u> |

West Hancock Community School District
Britt, Iowa

Exhibit A

Statement of Net Assets

June 30, 2004

| | Governmental <u>Activities</u> | Business Type <u>Activities</u> | <u>Total</u> |
|---|-----------------------------------|------------------------------------|-------------------------|
| Net assets | | | |
| Invested in capital assets, net of related debt | 1,495,922 | 12,625 | 1,508,547 |
| Restricted for: | | | |
| Management levy | 65,153 | - | 65,153 |
| Physical plant and equipment levy | 82,002 | - | 82,002 |
| Other special revenue purposes | 59,077 | - | 59,077 |
| Unrestricted | <u>1,272,806</u> | <u>42,820</u> | <u>1,315,626</u> |
| Total net assets | <u><u>\$ 2,974,960</u></u> | <u><u>55,445</u></u> | <u><u>3,030,405</u></u> |

See notes to financial statements.

West Hancock Community School District
 Britt, Iowa
 Statement of Activities
 Year ended June 30, 2004

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | |
|---|---------------------|----------------------------|--|--|
| | | <u>Charges for Service</u> | <u>Operating Grants, Contributions and Restricted Interest</u> | <u>Capital Grants, Contributions and Restricted Interest</u> |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 2,350,481 | 231,580 | 274,947 | - |
| Special instruction | 870,581 | 1,870 | 91,909 | - |
| Other instruction | 539,338 | 209,047 | - | - |
| | <u>3,760,400</u> | <u>442,497</u> | <u>366,856</u> | <u>-</u> |
| Support services: | | | | |
| Student services | 135,223 | - | - | - |
| Instructional staff services | 73,170 | - | - | - |
| Administration services | 647,157 | - | - | - |
| Operation and maintenance of plant services | 702,586 | - | - | - |
| Transportation services | 277,720 | - | 7,681 | - |
| Central support services | 17,594 | - | - | - |
| Other support services | 25 | - | - | - |
| | <u>1,853,475</u> | <u>-</u> | <u>7,681</u> | <u>-</u> |
| Non-instructional programs | <u>25,518</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Other expenditures: | | | | |
| Facilities acquisition | 6,789 | - | - | - |
| Long-term debt interest | 278,638 | - | - | - |
| AEA flowthrough | 207,842 | - | 207,842 | - |
| Depreciation (unallocated)* | 89,050 | - | - | - |
| | <u>582,319</u> | <u>-</u> | <u>207,842</u> | <u>-</u> |
| Total governmental activities | <u>6,221,712</u> | <u>442,497</u> | <u>582,379</u> | <u>-</u> |
| Business type activities: | | | | |
| Non-instructional programs: | | | | |
| Food service operations | 243,807 | 131,858 | 111,838 | - |
| Total | <u>\$ 6,465,519</u> | <u>574,355</u> | <u>694,217</u> | <u>-</u> |
| General Revenues: | | | | |
| Property tax levied for: | | | | |
| General purposes | | | | |
| Debt service | | | | |
| Capital outlay | | | | |
| Local option sales and services tax | | | | |
| Unrestricted state grants | | | | |
| Unrestricted investment earnings | | | | |
| Other | | | | |
| Total general revenues | | | | |
| Change in net assets | | | | |
| Net assets beginning of year, as restated | | | | |
| Net assets end of year | | | | |

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

Exhibit B

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|-----------------------------|--------------------|
| Governmental Activities | Business Type Activities | Total |
| (1,843,954) | - | (1,843,954) |
| (776,802) | - | (776,802) |
| (330,291) | - | (330,291) |
| <u>(2,951,047)</u> | <u>-</u> | <u>(2,951,047)</u> |
| (135,223) | - | (135,223) |
| (73,170) | - | (73,170) |
| (647,157) | - | (647,157) |
| - | - | - |
| (702,586) | - | (702,586) |
| (270,039) | - | (270,039) |
| (17,594) | - | (17,594) |
| (25) | - | (25) |
| <u>(1,845,794)</u> | <u>-</u> | <u>(1,845,794)</u> |
| <u>(25,518)</u> | <u>-</u> | <u>(25,518)</u> |
| (6,789) | - | (6,789) |
| (278,638) | - | (278,638) |
| - | - | - |
| (89,050) | - | (89,050) |
| <u>(374,477)</u> | <u>-</u> | <u>(374,477)</u> |
| <u>(5,196,836)</u> | <u>-</u> | <u>(5,196,836)</u> |
| - | (111) | (111) |
| <u>(5,196,836)</u> | <u>(111)</u> | <u>(5,196,947)</u> |
| \$ 2,304,878 | - | 2,304,878 |
| 467,481 | - | 467,481 |
| 62,954 | - | 62,954 |
| 172,847 | - | 172,847 |
| 1,980,723 | - | 1,980,723 |
| 77,448 | 350 | 77,798 |
| 458,205 | - | 458,205 |
| <u>5,524,536</u> | <u>350</u> | <u>5,524,886</u> |
| 327,700 | 239 | 327,939 |
| 2,647,260 | 55,206 | 2,702,466 |
| <u>\$ 2,974,960</u> | <u>55,445</u> | <u>3,030,405</u> |

West Hancock Community School District
Britt, Iowa

Exhibit C

Balance Sheet
Governmental Funds

June 30, 2004

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Nonmajor Special Revenue</u> | <u>Total</u> |
|--|---------------------|-------------------------|-----------------------------|---|------------------|
| Assets | | | | | |
| Cash and pooled investments: | | | | | |
| ISCAP | \$ 1,777,483 | - | - | - | 1,777,483 |
| Other | 836,894 | 20,127 | 340,493 | 206,163 | 1,403,677 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Delinquent | 31,895 | 6,932 | - | 3,312 | 42,139 |
| Succeeding year | 1,855,039 | 358,748 | - | 277,081 | 2,490,868 |
| Accounts | 1,063 | - | 14,119 | - | 15,182 |
| Accrued interest: | | | | | |
| ISCAP | 3,572 | - | - | - | 3,572 |
| Due from other governments | 178,058 | - | - | - | 178,058 |
| Total assets | <u>\$ 4,684,004</u> | <u>385,807</u> | <u>354,612</u> | <u>486,556</u> | <u>5,910,979</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 59,589 | - | 1,789 | 2,597 | 63,975 |
| Salaries and benefits payable | 1,688 | - | - | - | 1,688 |
| Early retirement | - | - | - | 646 | 646 |
| ISCAP warrants payable | 1,767,000 | - | - | - | 1,767,000 |
| ISCAP accrued interest payable | 5,415 | - | - | - | 5,415 |
| ISCAP unamortized premium | 18,608 | - | - | - | 18,608 |
| Deferred revenue: | | | | | |
| Succeeding year property tax | 1,855,039 | 358,748 | - | 277,081 | 2,490,868 |
| Other | 117,460 | - | - | - | 117,460 |
| Total liabilities | <u>3,824,799</u> | <u>358,748</u> | <u>1,789</u> | <u>280,324</u> | <u>4,465,660</u> |
| Fund balances: | | | | | |
| Reserved for debt service | - | 27,059 | - | - | 27,059 |
| Reserved for other purposes | 13,065 | - | - | - | 13,065 |
| Unreserved | 846,140 | - | 352,823 | 206,232 | 1,405,195 |
| Total fund balances | <u>859,205</u> | <u>27,059</u> | <u>352,823</u> | <u>206,232</u> | <u>1,445,319</u> |
| Total liabilities and fund balances | <u>\$ 4,684,004</u> | <u>385,807</u> | <u>354,612</u> | <u>486,556</u> | <u>5,910,979</u> |

See notes to financial statements.

West Hancock Community School District
Britt, Iowa

Exhibit D

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

| | |
|--|---------------------|
| Total fund balances of governmental funds (page 20) | \$ 1,445,319 |
|--|---------------------|

*Amounts reported for governmental activities in the
Statement of Net Assets are different because:*

| | |
|--|-----------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | 8,133,425 |
|--|-----------|

| | |
|---|---------|
| Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. | 117,460 |
|---|---------|

| | |
|--|----------|
| Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. | (32,283) |
|--|----------|

| | |
|---|--------------------|
| Long-term liabilities, including bonds and notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds. | <u>(6,688,961)</u> |
|---|--------------------|

| | |
|--|-----------------------------------|
| Net assets of governmental activities (page 19) | <u><u>\$ 2,974,960</u></u> |
|--|-----------------------------------|

See notes to financial statements.

Britt, Iowa

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year ended June 30, 2004

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Nonmajor Special Revenue</u> | <u>Total</u> |
|--|-------------------|-------------------------|-----------------------------|---|--------------------|
| Revenues: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ 2,379,873 | 467,482 | 172,849 | 222,876 | 3,243,080 |
| Tuition | 217,989 | - | - | - | 217,989 |
| Other | 91,881 | - | 98,068 | 210,557 | 400,506 |
| State sources | 2,413,447 | 329 | - | 157 | 2,413,933 |
| Federal sources | 155,909 | - | - | - | 155,909 |
| Total revenues | <u>5,259,099</u> | <u>467,811</u> | <u>270,917</u> | <u>433,590</u> | <u>6,431,417</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular instruction | 2,308,112 | - | - | - | 2,308,112 |
| Special instruction | 870,581 | - | - | - | 870,581 |
| Other instruction | 326,162 | - | - | 213,176 | 539,338 |
| | <u>3,504,855</u> | <u>-</u> | <u>-</u> | <u>213,176</u> | <u>3,718,031</u> |
| Support services: | | | | | |
| Student services | 127,996 | - | - | - | 127,996 |
| Instructional staff services | 73,170 | - | - | - | 73,170 |
| Administration services | 646,372 | - | - | - | 646,372 |
| Operation and maintenance of plant services | 541,900 | - | - | 159,854 | 701,754 |
| Transportation services | 239,613 | - | - | - | 239,613 |
| Central support services | 17,594 | - | - | - | 17,594 |
| Other support services | - | - | - | 25 | 25 |
| | <u>1,646,645</u> | <u>-</u> | <u>-</u> | <u>159,879</u> | <u>1,806,524</u> |
| Non-instructional programs | <u>-</u> | <u>-</u> | <u>-</u> | <u>25,518</u> | <u>25,518</u> |
| Other expenditures: | | | | | |
| Facilities acquisition | - | - | 4,041,077 | 32,939 | 4,074,016 |
| Long-term debt: | | | | | |
| Principal | - | 237,422 | - | - | 237,422 |
| Interest and fiscal charges | - | 279,749 | - | - | 279,749 |
| AEA flowthrough | 207,842 | - | - | - | 207,842 |
| | <u>207,842</u> | <u>517,171</u> | <u>4,041,077</u> | <u>32,939</u> | <u>4,799,029</u> |
| Total expenditures | <u>5,359,342</u> | <u>517,171</u> | <u>4,041,077</u> | <u>431,512</u> | <u>10,349,102</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(100,243)</u> | <u>(49,360)</u> | <u>(3,770,160)</u> | <u>2,078</u> | <u>(3,917,685)</u> |
| Other financing sources (uses): | | | | | |
| Operating transfers in | - | 47,119 | - | - | 47,119 |
| Operating transfers out | (2,747) | - | (42,410) | (1,962) | (47,119) |
| Sale of equipment | 535 | - | - | - | 535 |
| Revenue bonds issued | - | - | 700,000 | - | 700,000 |
| Total other financing sources (uses) | <u>(2,212)</u> | <u>47,119</u> | <u>657,590</u> | <u>(1,962)</u> | <u>700,535</u> |
| Net change in fund balances | <u>(102,455)</u> | <u>(2,241)</u> | <u>(3,112,570)</u> | <u>116</u> | <u>(3,217,150)</u> |
| Fund balances beginning of year, as restated (note 10) | <u>961,660</u> | <u>29,300</u> | <u>3,465,393</u> | <u>206,116</u> | <u>4,662,469</u> |
| Fund balances end of year | <u>\$ 859,205</u> | <u>27,059</u> | <u>352,823</u> | <u>206,232</u> | <u>1,445,319</u> |
| See notes to financial statements | | | | | |

West Hancock Community School District
Britt, Iowa

Exhibit F

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2004

| | |
|---|----------------|
| Net change in fund balances - total governmental funds (page 22) | \$ (3,217,150) |
|---|----------------|

*Amounts reported for governmental activities in the
Statement of Activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

| | | |
|---------------------------------|------------------|-----------|
| Expenditures for capital assets | \$ 4,078,725 | |
| Depreciation expense | <u>(152,224)</u> | 3,926,501 |

Certain income surtaxes are not collected for several months after year end is not considered available revenue and is deferred in the governmental funds.

117,460

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

| | | |
|--------|----------------|-----------|
| Issued | (700,000) | |
| Repaid | <u>237,422</u> | (462,578) |

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

1,111

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

| | | |
|------------------|--|-----------------|
| Early retirement | | <u>(37,644)</u> |
|------------------|--|-----------------|

| | |
|--|--------------------------|
| Change in net assets of governmental activities (page 19) | <u><u>\$ 327,700</u></u> |
|--|--------------------------|

See notes to financial statements.

West Hancock Community School District
Britt, Iowa

Exhibit G

Statement of Net Assets
Proprietary Fund

June 30, 2004

School
Nutrition

Assets

| | |
|---|---------------|
| Cash and cash equivalents | \$ 30,966 |
| Inventories | 11,958 |
| Capital assets, net of accumulated depreciation | <u>12,625</u> |
| Total assets | <u>55,549</u> |

Liabilities

| | |
|-------------------------------|------------|
| Salaries and benefits payable | <u>104</u> |
| Total liabilities | <u>104</u> |

Net Assets

| | |
|---|------------------|
| Invested in capital assets, net of related debt | 12,625 |
| Unrestricted | <u>42,820</u> |
| Total net assets | <u>\$ 55,445</u> |

See notes to financial statements.

West Hancock Community School District
Britt, Iowa

Exhibit H

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2004

| | <u>School Nutrition</u> |
|------------------------------|-----------------------------|
| Operating revenues: | |
| Local sources: | |
| Charges for service | \$ 131,858 |
| Operating expenses: | |
| Non-instructional programs: | |
| Food service operations: | |
| Salaries and benefits | 137,860 |
| Supplies | 101,051 |
| Depreciation | 4,896 |
| Total operating expenses | <u>243,807</u> |
| Operating loss | <u>(111,949)</u> |
| Non-operating revenues: | |
| State sources | 4,062 |
| Federal sources | 107,776 |
| Interest income | 350 |
| Total non-operating revenues | <u>112,188</u> |
| Change in net assets | 239 |
| Net assets beginning of year | <u>55,206</u> |
| Net assets end of year | <u><u>\$ 55,445</u></u> |

See notes to financial statements.

West Hancock Community School District
Britt, Iowa

Exhibit I

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2004

School
Nutrition

Cash flows from operating activities:

| | |
|---|-----------------|
| Cash received from sale of lunches and breakfasts | \$ 131,858 |
| Cash paid to employees for services | (137,756) |
| Cash paid to suppliers for goods or services | <u>(84,986)</u> |
| Net cash used by operating activities | <u>(90,884)</u> |

Cash flows from non-capital financing activities:

| | |
|---|---------------|
| State grants received | 4,062 |
| Federal grants received | <u>91,366</u> |
| Net cash provided by non-capital financing activities | <u>95,428</u> |

Cash flows from capital and related financing activities:

| | |
|---|----------|
| Sale of capital assets | - |
| Acquisition of capital assets | <u>-</u> |
| Net cash used by capital and related financing activities | <u>-</u> |

Cash flows from investing activities:

| | |
|-------------------------|------------|
| Interest on investments | <u>350</u> |
|-------------------------|------------|

Net increase in cash and cash equivalents 4,894

Cash and cash equivalents beginning of year 26,072

Cash and cash equivalents end of year \$ 30,966

West Hancock Community School District
Britt, Iowa

Exhibit I

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2004

School
Nutrition

**Reconciliation of operating loss to net cash used by
operating activities:**

| | |
|--|--------------------|
| Operating loss | \$ (111,949) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | |
| Commodities used | 16,410 |
| Depreciation | 4,896 |
| Increase in inventories | (345) |
| Increase in salaries and benefits payable | <u>104</u> |
| Net cash used by operating activities | <u>\$ (90,884)</u> |

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$16,410 of federal commodities.

See notes to financial statements.

West Hancock Community School District
Britt, Iowa

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

West Hancock Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the cities of Britt and Kanawha, Iowa, and the predominate agricultural territory in Hancock and Wright counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, West Hancock Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability to the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. West Hancock Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Hancock and Wright County Assessor's Conference boards.

West Hancock Community School District
Britt, Iowa

Notes to Financial Statements

June 30, 2004

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

West Hancock Community School District
Britt, Iowa

Notes to Financial Statements

June 30, 2004

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

West Hancock Community School District
Britt, Iowa

Notes to Financial Statements

June 30, 2004

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

West Hancock Community School District
Britt, Iowa

Notes to Financial Statements

June 30, 2004

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

West Hancock Community School District
Britt, Iowa

Notes to Financial Statements

June 30, 2004

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

West Hancock Community School District
Britt, Iowa

Notes to Financial Statements

June 30, 2004

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

| <u>Asset Class</u> | <u>Amount</u> |
|-----------------------------------|---------------|
| Land | \$ 2,500 |
| Buildings | 2,500 |
| Improvements other than buildings | 2,500 |
| Furniture and equipment: | |
| School Nutrition Fund equipment | 300 |
| Other furniture and equipment | 2,500 |

Capital assets are depreciated using the straight line method over the following estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Lives (In Years)</u> |
|-----------------------------------|--|
| Buildings | 50 |
| Improvements other than buildings | 20 |
| Furniture and equipment | 5-15 |

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

West Hancock Community School District
Britt, Iowa

Notes to Financial Statements

June 30, 2004

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the instruction functional area exceeded the amounts budgeted.

West Hancock Community School District
Britt, Iowa

Notes to Financial Statements

June 30, 2004

(2) Cash and Pooled Investments

The District's deposits banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$4,499 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|--------------------|-----------------------------------|---------------------------|
| Debt Service | General | \$ 2,747 |
| | Special Revenue: | |
| | Physical Plant and Equipment Levy | 1,962 |
| | Capital Projects | <u>42,410</u> |
| Total | | <u>\$ 47,119</u> ===== |

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

West Hancock Community School District
Britt, Iowa

Notes to Financial Statements

June 30, 2004

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP).
ISCAP

is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

| <u>Series</u> | <u>Warrant Date</u> | <u>Final Warrant Maturity</u> | <u>Investments</u> | <u>Accrued Interest Receivable</u> | <u>Warrants Payable</u> | <u>Accrued Interest Payable</u> | <u>Unamortized Premiums</u> |
|---------------|---------------------|-------------------------------|---------------------|------------------------------------|-------------------------|---------------------------------|-----------------------------|
| 2003-04B | 1-30-04 | 1-28-05 | \$ 656,440 | 3,572 | 652,000 | 5,415 | 3,143 |
| 2004-05A | 6-30-04 | 6-30-05 | <u>1,121,043</u> | <u>---</u> | <u>1,115,000</u> | <u>---</u> | <u>15,465</u> |
| Total | | | <u>\$ 1,777,483</u> | <u>3,572</u> | <u>1,767,000</u> | <u>5,415</u> | <u>18,608</u> |

The District pledges its state foundation aid payments and General Fund receipts as security

for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity during the year ended June 30, 2004.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

| <u>Series</u> | <u>Interest Rates on Warrants</u> | <u>Interest Rates on Investments</u> |
|---------------|-----------------------------------|--------------------------------------|
| 2003-04B | 2.000% | 1.310% |
| 2004-05A | 3.000% | 2.463% |

West Hancock Community School District
Britt, Iowa

Notes to Financial Statements

June 30, 2004

(5) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

| | Balance Beginning of Year, as restated (note 10) | Increases | Decreases | Balance End of Year |
|---|---|------------------|------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 13,500 | --- | --- | 13,500 |
| Construction in progress | <u>3,068,810</u> | <u>---</u> | <u>2,528,023</u> | <u>540,787</u> |
| Total capital assets not being depreciated | <u>3,082,310</u> | <u>---</u> | <u>2,528,023</u> | <u>554,287</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 2,891,607 | 6,569,100 | --- | 9,460,707 |
| Improvements other than buildings | 157,312 | --- | --- | 157,312 |
| Furniture and equipment | <u>1,113,805</u> | <u>37,648</u> | <u>---</u> | <u>1,151,453</u> |
| Total capital assets being depreciated | <u>4,162,724</u> | <u>6,606,748</u> | <u>---</u> | <u>10,769,472</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 2,067,853 | 89,050 | --- | 2,156,903 |
| Improvements other than buildings | 157,312 | --- | --- | 157,312 |
| Furniture and equipment | <u>812,945</u> | <u>63,174</u> | <u>---</u> | <u>876,119</u> |
| Total accumulated depreciation | <u>3,038,110</u> | <u>152,224</u> | <u>---</u> | <u>3,190,334</u> |
| Total capital assets being depreciated, net | <u>1,124,614</u> | <u>6,454,524</u> | <u>---</u> | <u>7,579,138</u> |
| Governmental activities capital assets, net | <u>\$ 4,206,924</u> | <u>6,454,524</u> | <u>2,528,023</u> | <u>8,133,425</u> |

West Hancock Community School District
Britt, Iowa

Notes to Financial Statements

June 30, 2004

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|----------------|------------|---------------------------|
| Business type activities: | | | | |
| Furniture and equipment | \$ 119,648 | --- | --- | 119,648 |
| Less accumulated depreciation | <u>102,126</u> | <u>4,897</u> | <u>---</u> | <u>107,023</u> |
| Business type activities capital assets, net | <u>\$ 17,522</u> | <u>(4,897)</u> | <u>---</u> | <u>12,625</u> |

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular \$ 8,525

Support services:

Student support 12,325

Administration 785

Operation and maintenance of plant 3,432

Transportation 38,107

Unallocated 89,050

Total depreciation expense – governmental activities \$ 152,224

Business type activities:

Food service operations \$ 4,897

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

| | Balance Beginning of Year | Additions | Reductions | Balance End of Year | Due Within One Year |
|--------------------|---------------------------------|----------------|----------------|---------------------------|---------------------------|
| General obligation | | | | | |
| Bonds | \$ 6,165,000 | --- | 205,000 | 5,960,000 | 215,000 |
| Notes payable | --- | 700,000 | 28,410 | 671,590 | 58,536 |
| Capital lease | 9,925 | --- | 4,012 | 5,913 | 4,371 |
| Early retirement | <u>16,808</u> | <u>50,321</u> | <u>15,025</u> | <u>52,104</u> | <u>7,749</u> |
| Total | <u>\$ 6,191,733</u> | <u>750,321</u> | <u>252,447</u> | <u>6,689,607</u> | <u>285,656</u> |

West Hancock Community School District
Britt, Iowa

Notes to Financial Statements

June 30, 2004

Early Retirement

The District offers a voluntary early retirement plan to its certified employees.

Eligible employees must be at least age fifty-nine and must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is subject to a maximum of \$15,000 per individual. Early retirement benefits paid during the year ended June 30, 2004 totaled \$15,025.

General Obligation Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

| Year Ending <u>June 30,</u> | Interest <u>Rate</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------------|-------------------------|------------------|-----------------|--------------|
| 2005 | 3.25% | \$ 215,000 | 258,089 | 473,089 |
| 2006 | 3.25 | 230,000 | 251,101 | 481,101 |
| 2007 | 3.25 | 240,000 | 243,626 | 483,626 |
| 2008 | 3.40 | 250,000 | 235,826 | 485,826 |
| 2009 | 3.70 | 265,000 | 227,326 | 492,326 |
| 2010 | 5.125 | 275,000 | 217,521 | 492,521 |
| 2011 | 5.20 | 290,000 | 203,428 | 493,428 |
| 2012 | 5.20 | 300,000 | 188,348 | 488,348 |
| 2013 | 4.05 | 315,000 | 172,747 | 487,747 |
| 2014 | 4.125 | 330,000 | 159,990 | 489,990 |
| 2015 | 4.20 | 345,000 | 146,378 | 491,378 |
| 2016 | 4.30 | 360,000 | 131,887 | 491,887 |
| 2017 | 4.40 | 380,000 | 116,408 | 496,408 |
| 2018 | 4.50 | 395,000 | 99,687 | 494,687 |

West Hancock Community School District
Britt, Iowa

Notes to Financial Statements

June 30, 2004

| <u>Year Ending June 30,</u> | <u>Interest Rate</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------------|--------------------------|------------------|-----------------|----------------|
| 2019 | 4.55 | 415,000 | 81,913 | 496,913 |
| 2020 | 4.60 | 430,000 | 63,030 | 493,030 |
| 2021 | 4.65 | 450,000 | 43,250 | 493,250 |
| 2022 | 4.70 | <u>475,000</u> | <u>22,325</u> | <u>497,325</u> |
| Total | | \$ 5,960,000 | 2,862,880 | 8,822,880 |
| | | ===== | ===== | ===== |

Energy Management Improvement Capital Loan Note

Details of the District's June 30, 2004 note payable is as follows:

| <u>Year Ending June 30,</u> | <u>Interest Rate</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------------|--------------------------|------------------|-----------------|---------------|
| 2005 | 4.00% | \$ 58,536 | 26,283 | 84,819 |
| 2006 | 4.00 | 60,901 | 23,918 | 84,819 |
| 2007 | 4.00 | 63,361 | 21,458 | 84,819 |
| 2008 | 4.00 | 65,920 | 18,899 | 84,819 |
| 2009 | 4.00 | 68,583 | 16,236 | 84,819 |
| 2010 | 4.00 | 71,354 | 13,465 | 84,819 |
| 2011 | 4.00 | 74,236 | 10,583 | 84,819 |
| 2012 | 4.00 | 77,236 | 7,583 | 84,819 |
| 2013 | 4.00 | 80,356 | 4,463 | 84,819 |
| 2014 | 4.00 | <u>51,107</u> | <u>1,022</u> | <u>52,129</u> |
| Total | | \$ 671,590 | 143,910 | 815,500 |
| | | ===== | ===== | ===== |

West Hancock Community School District
Britt, Iowa

Notes to Financial Statements

June 30, 2004

Lease-Purchase Agreement

The West Hancock Community School District entered into a lease purchase agreement with Apple Computer Inc. for the purpose of financing the purchase of computer equipment. The amount financed was \$12,505 for thirty-six months at an interest rate of 3.13%. Payments are monthly in the amount of \$392.

Details of the lease-purchase are as follows:

| <u>Year Ending</u> <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------------|------------------|-----------------|---------------|
| 2004 | \$ 4,012 | 697 | 4,709 |
| 2005 | 4,371 | 339 | 4,710 |
| 2006 | <u>1,542</u> | <u>28</u> | <u>1,570</u> |
| Total | <u>9,925</u> | <u>1,064</u> | <u>10,989</u> |

During the year ended June 30, 2004, the District made the payments as scheduled above.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$189,116, \$187,958 and \$183,238, respectively, equal to the required contributions for each year.

West Hancock Community School District
Britt, Iowa

Notes to Financial Statements

June 30, 2004

(8) Risk Management

West Hancock Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$207,842 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new

West Hancock Community School District
Britt, Iowa

Notes to Financial Statements

June 30, 2004

basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

| | Fund | | | | Nonmajor Special Revenue | Total |
|--|----------------|-----------------|---------------------|----------------|--------------------------------|---------------------|
| | General | Debt Service | Capital Projects | | | |
| Net assets June 30, 2003, as previously reported | \$ 961,660 | 29,300 | 3,465,393 | 206,116 | | 4,662,469 |
| GASB Interpretation 6 adjustments | --- | --- | --- | --- | | --- |
| Net assets July 1, 2003, as restated for governmental funds | <u>961,660</u> | <u>29,300</u> | <u>3,465,393</u> | <u>206,116</u> | | <u>4,662,469</u> |
| GASB 34 adjustments: | | | | | | |
| Capital assets, net of accumulated depreciation of \$3,038,110 | | | | | | 4,206,924 |
| Long-term liabilities: | | | | | | |
| Bonds and notes | | | | | | (6,174,925) |
| Early retirement | | | | | | (13,814) |
| Accrued interest payable | | | | | | <u>(33,394)</u> |
| | | | | | | <u>(2,015,209)</u> |
| Net assets July 1, 2003, as restated | | | | | | <u>\$ 2,647,260</u> |

(11) Construction Commitment

The District entered into a contract totaling \$700,000 to improve the energy efficiency of two of the District's buildings. As of June 30, 2004, \$540,787 of the contract was complete.

Required Supplementary Information

West Hancock Community School District
Britt, Iowa

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

| | Governmental Funds <u>Actual</u> | Proprietary Fund <u>Actual</u> |
|--|--|--------------------------------------|
| Receipts: | | |
| Local sources | \$ 3,935,420 | 132,208 |
| State sources | 2,427,080 | 4,062 |
| Federal sources | <u>155,757</u> | <u>91,366</u> |
| Total receipts | <u>6,518,257</u> | <u>227,636</u> |
| Disbursements: | | |
| Instruction | 3,709,705 | - |
| Support services | 1,771,358 | - |
| Non-instructional programs | 36,435 | 222,742 |
| Other expenditures | <u>5,668,481</u> | <u>-</u> |
| Total disbursements | <u>11,185,979</u> | <u>222,742</u> |
| Excess (deficiency) of receipts over (under) disbursements | (4,667,722) | 4,894 |
| Other financing sources, net | <u>700,000</u> | <u>-</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | (3,967,722) | 4,894 |
| Balances beginning of year | <u>5,371,399</u> | <u>26,072</u> |
| Balances end of year | <u>\$ 1,403,677</u> | <u>30,966</u> |

See accompanying independent auditor's report.

| <u>Total Actual</u> | <u>Budgeted Amounts Original & Final</u> | <u>Final to Actual Variance</u> |
|-------------------------|--|---|
| 4,067,628 | 3,620,122 | 447,506 |
| 2,431,142 | 2,553,252 | (122,110) |
| 247,123 | 216,000 | 31,123 |
| <u>6,745,893</u> | <u>6,389,374</u> | <u>356,519</u> |
| 3,709,705 | 3,685,000 | 24,705 |
| 1,771,358 | 1,910,300 | (138,942) |
| 259,177 | 301,030 | (41,853) |
| <u>5,668,481</u> | <u>6,570,435</u> | <u>(901,954)</u> |
| <u>11,408,721</u> | <u>12,466,765</u> | <u>(1,058,044)</u> |
| (4,662,828) | (6,077,391) | 1,414,563 |
| <u>700,000</u> | <u>-</u> | <u>700,000</u> |
| (3,962,828) | (6,077,391) | 2,114,563 |
| <u>5,397,471</u> | <u>7,008,897</u> | <u>(1,611,426)</u> |
| <u>1,434,643</u> | <u>931,506</u> | <u>503,137</u> |

West Hancock Community School District
Britt, Iowa

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

| | Governmental Funds | | |
|------------------------------|----------------------|-----------------------------|-------------------------------------|
| | Cash <u>Basis</u> | Accrual Adjust- ments | Modified Accrual <u>Basis</u> |
| Revenues | \$ 6,518,257 | (86,840) | 6,431,417 |
| Expenditures | <u>11,185,979</u> | <u>(836,877)</u> | 10,349,102 |
| Net | (4,667,722) | 750,037 | (3,917,685) |
| Other financing sources, net | 700,000 | 535 | 700,535 |
| Beginning fund balances | <u>5,371,399</u> | <u>(708,930)</u> | 4,662,469 |
| Ending fund balances | <u>\$ 1,403,677</u> | <u>41,642</u> | <u>1,445,319</u> |

| | Proprietary Funds | | |
|----------------------|----------------------|-----------------------------|-------------------------|
| | Enterprise | | |
| | Cash <u>Basis</u> | Accrual Adjust- ments | Accrual <u>Basis</u> |
| Revenues | \$ 227,636 | 16,410 | 244,046 |
| Expenses | <u>222,742</u> | <u>21,065</u> | <u>243,807</u> |
| Net | 4,894 | (4,655) | 239 |
| Beginning net assets | <u>26,072</u> | <u>29,134</u> | <u>55,206</u> |
| Ending net assets | <u>\$ 30,966</u> | <u>24,479</u> | <u>55,445</u> |

See accompanying independent auditor's report.

West Hancock Community School District
Britt, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2004, disbursements in the instruction function exceeded the amounts budgeted.

Other Supplementary Information

West Hancock Community School District
Britt, Iowa

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2004

| Assets | Manage- ment <u>Levy</u> | Student Activity <u>Activity</u> | Physical Plant and Equipment <u>Levy</u> | Playground Equipment Recreation <u>Levy</u> |
|--|--------------------------------|--|---|--|
| Cash and pooled investments | \$ 65,236 | 43,279 | 82,231 | 15,279 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 1,997 | - | 934 | 381 |
| Succeeding year | <u>201,693</u> | <u>-</u> | <u>53,643</u> | <u>21,745</u> |
| Total assets | <u>\$ 268,926</u> | <u>43,279</u> | <u>136,808</u> | <u>37,405</u> |
| Liabilities and Fund Equity | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 1,434 | - | 1,163 | - |
| Salaries and benefits payable | 646 | - | - | - |
| Deferred revenue: | | | | |
| Succeeding year property tax | <u>201,693</u> | <u>-</u> | <u>53,643</u> | <u>21,745</u> |
| Total liabilities | <u>203,773</u> | <u>-</u> | <u>54,806</u> | <u>21,745</u> |
| Fund equity: | | | | |
| Unreserved fund balances | <u>65,153</u> | <u>43,279</u> | <u>82,002</u> | <u>15,660</u> |
| Total liabilities and fund equity | <u>\$ 268,926</u> | <u>43,279</u> | <u>136,808</u> | <u>37,405</u> |

See accompanying independent auditor's report.

| Riebsamen <u>Memorial</u> | <u>Total</u> |
|------------------------------|----------------|
| 138 | 206,163 |
| - | 3,312 |
| <u>-</u> | <u>277,081</u> |
| <u>138</u> | <u>486,556</u> |
| - | 2,597 |
| - | 646 |
| <u>-</u> | <u>277,081</u> |
| <u>-</u> | <u>280,324</u> |
| <u>138</u> | <u>206,232</u> |
| <u>138</u> | <u>486,556</u> |

West Hancock Community School District
Britt, Iowa

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2004

| | Manage- ment <u>Levy</u> | Student <u>Activity</u> | Physical Plant and Equipment <u>Levy</u> | Public Education/ Recreation <u>Levy</u> |
|--|--------------------------------|----------------------------|---|---|
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ 134,258 | - | 62,953 | 25,665 |
| Other | - | 209,047 | 1,509 | - |
| State sources | <u>95</u> | <u>-</u> | <u>44</u> | <u>18</u> |
| Total revenues | <u>134,353</u> | <u>209,047</u> | <u>64,506</u> | <u>25,683</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Other instruction | - | 213,176 | - | - |
| Support services: | | | | |
| Other support services | - | - | - | - |
| Operation and maintenance of plant services | 139,074 | - | 20,780 | - |
| Non-instructional programs | - | - | - | 25,518 |
| Other expenditures: | | | | |
| Facilities acquisition | <u>-</u> | <u>-</u> | <u>32,939</u> | <u>-</u> |
| Total expenditures | <u>139,074</u> | <u>213,176</u> | <u>53,719</u> | <u>25,518</u> |
| Excess (deficiency) of revenues over (under) expenditures | (4,721) | (4,129) | 10,787 | 165 |
| Other financing sources (uses): | | | | |
| Operating transfers out | <u>-</u> | <u>-</u> | <u>(1,962)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>(1,962)</u> | <u>-</u> |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing users | (4,721) | (4,129) | 8,825 | 165 |
| Fund balances beginning of year, as restated | <u>69,874</u> | <u>47,408</u> | <u>73,177</u> | <u>15,495</u> |
| Fund balances end of year | <u>\$ 65,153</u> | <u>43,279</u> | <u>82,002</u> | <u>15,660</u> |

See accompanying independent auditor's report.

| Riebsamen | |
|-----------------|----------------|
| <u>Memorial</u> | <u>Total</u> |
| - | 222,876 |
| 1 | 210,557 |
| - | 157 |
| <u>1</u> | <u>433,590</u> |
| - | 213,176 |
| 25 | 25 |
| - | 159,854 |
| - | 25,518 |
| - | 32,939 |
| <u>25</u> | <u>431,512</u> |
| (24) | 2,078 |
| - | (1,962) |
| - | (1,962) |
| (24) | 116 |
| <u>162</u> | <u>206,116</u> |
| <u>138</u> | <u>206,232</u> |

West Hancock Community School District
Britt, Iowa

Schedule 3

Schedule of Changes in Individual Student Activity Accounts

Year ended June 30, 2004

| <u>Account</u> | Balance Beginning of Year | <u>Revenues</u> | <u>Expenditures</u> | Balance End of Year |
|------------------|---------------------------------|-----------------|---------------------|---------------------------|
| Athletics | \$ 3,873 | 35,446 | 33,535 | 5,784 |
| Class of 2003 | 608 | - | - | 608 |
| Class of 2004 | 4,696 | 992 | 5,127 | 561 |
| Class of 2005 | - | 15,468 | 13,296 | 2,172 |
| Class of 2006 | - | 44 | - | 44 |
| FFA | 1,121 | 12,283 | 13,111 | 293 |
| FCCLA | 228 | 734 | 594 | 368 |
| SES | 203 | 30 | - | 233 |
| Student Council | 8,523 | 2,536 | 2,960 | 8,099 |
| Vocal Music | 2,907 | 11,027 | 13,045 | 889 |
| Cheerleaders | 1,507 | 17,934 | 17,282 | 2,159 |
| Band | 767 | 8,311 | 7,911 | 1,167 |
| Drama | 196 | 1,528 | 513 | 1,211 |
| Pep Club | 233 | 1,411 | 1,357 | 287 |
| Yearbook | 2,963 | 6,875 | 7,191 | 2,647 |
| Girls Basketball | 775 | 1,210 | 1,223 | 762 |
| Mat Maids | 171 | 100 | 204 | 67 |
| Wrestling | 437 | 350 | 637 | 150 |
| Weight Lifting | 3,098 | 13,653 | 15,434 | 1,317 |
| Boys Basketball | 782 | 790 | 651 | 921 |
| Interest | 4,428 | 7,382 | 7,831 | 3,979 |
| Student Fees | - | 37,624 | 37,342 | 282 |
| Spanish Club | 1,072 | - | - | 1,072 |
| Speech | 66 | - | - | 66 |
| Volleyball | 737 | 2,008 | 1,663 | 1,082 |
| Student Council | 1,960 | 4,998 | 6,031 | 927 |
| Student Projects | 146 | 877 | 877 | 146 |

West Hancock Community School District
Britt, Iowa

Schedule 3

Schedule of Changes in Individual Student Activity Accounts

Year ended June 30, 2004

| <u>Account</u> | <u>Balance Beginning of Year</u> | <u>Revenues</u> | <u>Expenditures</u> | <u>Balance End of Year</u> |
|-----------------------|--|-----------------|---------------------|------------------------------------|
| Softball | 214 | 2,056 | 761 | 1,509 |
| Officials | - | 2,841 | 2,841 | - |
| Magazines/Athletics | 2,785 | 12,607 | 14,202 | 1,190 |
| Junior High Athletics | 539 | 3,829 | 3,593 | 775 |
| Cheerleaders | 765 | 9 | 190 | 584 |
| Junior High Music | 1,078 | 4,060 | 3,717 | 1,421 |
| Interst | 530 | 34 | 57 | 507 |
| Total | <u>\$ 47,408</u> | <u>209,047</u> | <u>213,176</u> | <u>43,279</u> |

See accompanying independent auditor's report.

West Hancock Community School District
Britt, Iowa

Schedule 4

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Two Years

| | Modified Accrual Basis | |
|---|------------------------|------------------|
| | <u>2004</u> | <u>2003</u> |
| Revenues: | | |
| Local sources: | | |
| Local tax | \$ 3,243,080 | 3,079,535 |
| Tuition | 217,989 | 128,435 |
| Other | 400,506 | 389,153 |
| Intermediate sources | | |
| State sources | 2,413,933 | 2,555,661 |
| Federal sources | 155,909 | 197,080 |
| Total | <u>\$ 6,431,417</u> | <u>6,349,864</u> |
| Expenditures: | | |
| Instruction: | | |
| Regular instruction | \$ 2,308,112 | 2,410,634 |
| Special instruction | 870,581 | 742,269 |
| Other instruction | 539,338 | 469,570 |
| Support services: | | |
| Student services | 127,996 | 124,229 |
| Instructional staff services | 73,170 | 94,956 |
| Administration services | 646,372 | 620,292 |
| Operation and maintenance of plant services | 701,754 | 652,553 |
| Transportation services | 239,613 | 239,604 |
| Central support services | 17,594 | - |
| Other support services | 25 | - |
| Non-instructional programs | 25,518 | 41,221 |
| Other expenditures: | | |
| Facilities acquisition | 4,074,016 | 3,061,916 |
| Long-term debt: | | |
| Principal | 237,422 | 262,580 |
| Interest and other charges | 279,749 | 228,491 |
| AEA flowthrough | 207,842 | 208,842 |
| Total | <u>\$ 10,349,102</u> | <u>9,157,157</u> |

See accompanying independent auditor's report.

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Education of
West Hancock Community School District:

We have audited the financial statements of West Hancock Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 2, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether West Hancock Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for items II-G-04 and II-H-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered West Hancock Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04, is a material weakness. Prior year reportable conditions have been resolved except for item I-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of West Hancock Community School District and other parties to whom West Hancock Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of West Hancock Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

CORNWELL & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

September 2, 2004

West Hancock Community School District
Britt, Iowa

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the General Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported:

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We are doing everything we can with the limited number of staff we have.

Conclusion – Response acknowledged.

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories - Official depositories have been approved by the District.

The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget - Disbursements for the year ended June 30, 2004 exceeded the amounts budgeted in the instruction function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

West Hancock Community School District
Britt, Iowa

Schedule of Findings

Year ended June 30, 2004

Response – Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

II-C-04 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-E-04 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

| <u>Name, Title and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|--|------------------------------------|---------------|
| Elizabeth Treiten, teacher, spouse is owner of Kanawha Reporter | Publications | \$ 2,547 |
| Deb Trulson, Board Member, spouse owns Trulson Auto Parts | Repairs | \$ 2,489 |
| Jay Burgardt, Board Member owns Midwest Organics | Fertilizer | \$ 776 |

In accordance with an Attorney General's opinion dated November 9, 1976, the transactions with the spouses of a District employee and Board member do not appear to represent conflicts of interest. The transaction with the Board President does not appear to represent a conflict of interest since total transactions with this individual were less than \$2,500 during the fiscal year.

West Hancock Community School District
Britt, Iowa

Schedule of Findings

Year ended June 30, 2004

II-F-04 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted. However, we noted the board minutes were not always published within two weeks as required by Chapter 279.35 of the Code of Iowa. We also noted that the minutes were not always signed by the board secretary.

Recommendation – The District should insure that all minutes are published timely and properly signed.

Response – This was an oversight this year, due to the change in board secretaries. We will publish minutes timely and make sure the minutes are properly signed in the future.

Conclusion – Response accepted.

II-H-04 Certified Enrollment – The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for September 2003 was understated by 9 as the District left off some students that were tuitioned and open enrolled out.

Recommendation – The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response – We will do this.

Conclusion – Response accepted.

II-I-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted, other than noted previously.

II-J-04 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.